

## **Healthy Cities Need Healthy Funding Sources**

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The daily headlines have made most citizens painfully aware that many city governments in Oklahoma are financially ill. Poor sales tax revenues are crippling municipalities' ability to provide basic safety and quality of life services that citizens expect and, until recently, have taken for granted.

Oklahoma is the only state in the nation where cities and towns must rely on sales taxes as their primary revenue source for general governmental operations. No one would draw up such a system today if starting from scratch. Oklahoma state government, county governments, and school districts each have multiple significant revenue sources to draw upon to fund their operations.

The sales tax is an inherently unstable revenue source, reflecting volatile consumer sales activity. Moreover, the base on which it is applied is continually being eroded. Oklahoma now has 143 legislatively-authorized sales tax exemptions, up from six in 1980. And ever-growing internet sales are expected to cost Oklahoma state and local governments \$106 million in lost sales tax revenues this year and \$120 million next.

State government has steadily increased its own reliance upon the sales tax, hiking the state rate from 2 cents in 1982 to 4½ cents today. A number of counties and school districts have also augmented their property tax revenue base with sales taxes.

These actions have gradually crowded out municipalities' abilities to adjust sales tax rates for local operating needs. Typically, cities and towns have only been able to raise their local rate when the proceeds were earmarked for special, restricted purposes.

In many Oklahoma cities and towns, the costs for public safety services alone exceed annual general fund revenues generated from sales taxes. Cities must scramble to fund remaining governmental functions such as streets, parks, and vital support services. Most routinely find it necessary to tap utility revenues to balance their budgets, a practice which takes dollars away from utility system maintenance, and places upward pressure on utility rates.

To bring this critical issue to the forefront, city officials from this area last year joined forces with our colleagues statewide to begin a "Healthy Cities – Healthy Oklahoma" initiative.

Cities and towns are the backbone of Oklahoma's economy, and the state's health is critically dependent on the health of its cities and towns. For example, 77 percent of all Oklahomans live in cities and towns, 91 percent of state sales taxes are generated within cities and towns, and 80 percent of Oklahoma homes and businesses receive water service from cities and towns.

Also, virtually all commerce, common education, higher education, healthcare, state, and many county government services take place inside a city or town. Those institutions cannot fully achieve their own respective missions if their host cities are not healthy, functioning entities. We are all in this together.

Because they are so reliant on sales taxes, most cities and towns focus the bulk of their efforts on attracting retail sales instead of industries which feature higher-paying jobs, or adding rooftops. This is understandable, since the latter pursuits increase demands on municipal services without directly providing commensurate operating revenues. However, this ultimately results in a less diversified, less prosperous Oklahoma economy.

Pursuit of retail also pits communities against one another since there is only so much of the retail pie to go around – often helping one at the expense of another.

The “Healthy Cities” initiative is designed to promote awareness and to secure understanding and modest help from state lawmakers in the near term. It began last session by our asking lawmakers to “stop the bleeding” through adoption of the Municipal Fiscal Impact Act. That simple, but important new law now requires the Legislature to measure the fiscal impact of proposed laws on cities and towns before adopting them. Unfunded mandates can be very harmful to financially-strapped local governments.

We also asked lawmakers to stop enacting sales tax exemptions that do not pay for themselves, and to create a Task Force on Municipal Finance to study the plight of municipal finance in Oklahoma and produce recommendations for reforming the system. At this writing, appointments are being made to this task force, which is slated to convene this fall and produce a report for consideration by lawmakers early next calendar year. The creation of this task force and indeed, the 2010 Oklahoma Academy Town Hall meeting on Municipal Finance, are very timely.

The Tulsa Metro Chamber recently concluded a three month strategic planning process involving a broad and diverse group of business, chamber, and local government representatives from throughout northeast Oklahoma, who worked to produce this year's version of their unified “One Voice” legislative agenda. Interestingly, their second highest-ranked state legislative priority was: “Support legislation allowing municipalities to diversify their sources of revenues to fund essential local government operations.”

I personally believe this effort will need to include allowing local governments access to the more stable ad valorem of revenues type on a local option basis, to suit local circumstances and voter preferences, possibly dedicated for public safety. Granting this authority would not cost the state budget writers anything, but would in time, produce a stronger state economy and state budget.

Moreover, in the future when state revenues and the state budget recover sufficiently to allow for same, I would recommend state lawmakers increase their now relatively meager investment in local governments to help build our overall economy. They should once again work to ensure state transportation-related revenues collected each year are actually used for support transportation needs in Oklahoma, rather than be diverted for other purposes. But this time, they should increase the tiny fraction annually allocated to support municipal streets and bridges, on which the majority of all vehicular miles in our state are driven.

City officials recognize that the current municipal finance structure was not formed overnight, and it will realistically take some years to reform it. The funding situation in many Oklahoma cities and towns is in critical condition, and work must begin now to get our cities, and in turn our state, healthy.